

DOCUMENT RESUME

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[Accounting and Reimbursement for Foreign Military Sales].  
January 28, 1977. 3 pp. + enclosure (1 pp.).

Report to Col. Emil J. Klingenfels, Deputy Commander, Department of the Army: International Logistics Command, New Cumberland, PA; by Allen R. Voss, Regional Manager, Field Operations Div.: Regional Office (Philadelphia).

Issue Area: Accounting and Financial Reporting (2800);  
International Economic and Military Programs: Foreign  
Military Sales (605).

Contact: Field Operations Div.: Regional Office (Philadelphia).  
Budget Function: Miscellaneous: Financial Management and  
Information Systems (1002).

A review was completed at the Army International Logistics Command of the accounting and reimbursement of administrative expenses, including civilian and military personnel costs, connected with foreign military sales. Findings/Conclusions: Unnecessary loss of revenue to the Government was discovered. The 2% administrative surcharge is not being billed to foreign customers on certain cases although the Letter of Offer and Acceptance (DD Form 1513) provides for the surcharge. These cases are erroneously recorded (coded) in the computer master program as being exempt from the surcharge. The cause of the incorrect coding was not determined, because of lack of documentation. However, a recently introduced programming system will assure correct coding in the future. To cite an example of the revenue loss, of 117 cases reviewed out of 149 cases supposedly exempt from the surcharge, 66 cases were actually subject to the surcharge, for a loss of \$940,000. Recommendations: Reviews should be performed of DD Form 1513s for the 32 partially exempt cases and the 32 entirely exempt cases not examined by GAO to identify improperly coded items in the master record. The master program should be corrected for all 66 cases found plus any additional cases identified. Customers should be rebilled to assess the surcharge erroneously omitted. (DJM)

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(96354)

January 28, 1977

Colonel Emil J. Klingenfus  
Deputy Commander  
United States Army International  
Logistics Command  
New Cumberland Army Depot  
New Cumberland, Pennsylvania 17070

Dear Colonel Klingenfus:

Representatives of this office recently completed a review at your command of the accounting and reimbursement for administrative expenses, including costs of military and civilian personnel, connected with Foreign Military Sales (FMS). This assignment originated from a request by the Senate Committee on Armed Services.

On December 17, 1976, we met with representatives of your staff to discuss the results of our work. We would like to call your attention to a problem area disclosed during our review which we believe deserves remedial action so that an unnecessary loss of revenue to the Government may be avoided.

Essentially, the problem is that the 2 percent administrative surcharge is not being billed to foreign customers on certain cases although the Letter of Offer and Acceptance (DD Form 1513) provides for the surcharge. These cases are erroneously recorded (coded) in the computer master program record as being exempt from the surcharge. This causes the surcharge to be omitted from customer billings during the automated processing of invoices received from commodity commands and other supplying activities.

As of September 23, 1976, the master program record showed 149 cases to be entirely exempt and 32 cases partially exempt, exclusive of cases with Canada and Germany. We reviewed the DD Form 1513 for 117 of the 149 cases recorded as entirely exempt and found that 66 cases were actually subject to the surcharge. For these 66 cases, the total program value subject

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to the surcharge was about \$47 million, which indicates a potential revenue loss of \$940,000. We did not review the DD Form 1513 for the remaining 32 cases recorded as entirely exempt because the files were not readily accessible. Of these, 16 cases were recently closed, 15 were classified, and 1 was pending implementation. Although we did not completely research the 32 cases recorded as partially exempt, our test of two cases disclosed that both were entirely subject to the surcharge, according to the DD Form 1513.

We could not determine the cause for the incorrect coding in the master program record because of a lack of documentation. The Directorate for Management Information and Systems coded the master program record for exempt cases and line items on the basis of notification by the Directorate for Program Operations. Such notification was informal and no records were kept.

We were informed by representatives of your command that the recent implementation of the Centralized Integrated System for International Logistics will assure correct coding in the master program record for the exempt or nonexempt status of PMS cases implemented thereafter. Should this be the case, there would be no need to strengthen the procedure we observed for coding the master program record.

We previously furnished to representatives of your command a list of country and case designators for the 66 entirely exempt and 32 partially exempt cases (according to the master program record) described above. Enclosed with this letter is an additional list of designators for the 32 entirely exempt cases for which we did not examine the DD Form 1513. We recommend that:

- DD Form 1513s for the 32 partially exempt cases and 32 entirely exempt cases not examined by GAO be reviewed to identify any cases or line items improperly coded as exempt in the master program record;
- the master program record be corrected to show the proper coding (nonexempt) for the 66 cases as well as for any cases or line items incorrectly coded as exempt which may be identified among the other 64 cases above; and
- revised customer billings be processed to assess the surcharge incorrectly omitted on previous billings affecting the above cases.

We would appreciate receiving information on any remedial action by your command on this matter, including (1) the amount of additional billings to customers for previously omitted surcharges and (2) the total program value of line items incorrectly coded as exempt which may be identified among the 64 cases for which GAO did not examine the DD Form 1513.

Information obtained during our review, after consolidation with data developed at other activities, will be reported to the Senate Committee on Armed Services.

A copy of this letter is being sent to the Assistant Secretary of the Army (Financial Management).

We wish to thank you and your staff for the cooperation and courtesies extended to our representatives during their stay at your command.

Sincerely yours,



Allen R. Voss  
Regional Manager

Enclosure

FMS CASES RECORDED IN MASTER  
PROGRAM RECORD AS ENTIRELY EXEMPT  
FROM ADMINISTRATIVE SURCHARGE--  
DD FORM 1513 NOT EXAMINED BY GAO

RECENTLY CLOSED CASES (16)

Australia	WUB, WUC
Bolivia	UBQ
Denmark	BDT, BDW
Greece	UWC, UYL
Honduras	UBS
Italy	NCB
Japan	UUL
Luxemburg	UCA
Netherlands	UYH
Singapore	EWM
Spain	UPN
Saudi Arabia	UGI
Switzerland	VNR

CLASSIFIED CASES (15)

Iran	UEI
Israel	BMA, BMB, BMC, BMD, BME, BMF, BMG
Italy	GMX
Korea	BZZ
Netherlands	GND
New Zealand	GPC
NAMSA	UHA
Saudi Arabia	URA
Turkey	BZZ

CASE PENDING IMPLEMENTATION

Spain	UUL
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